Next 1 Page(s) In Document Exempt

I. D. The principal effect of the canal stoppage on dry cargo movement will be to tighten still further an already tight charter market for this movement. The indicators of this tightened market for vessels are rising freight and charter rates, rising prices on the second-hand ship market, and recent releases of tankers and cargo vessels from the U.S. mothball fleet.

Between 27 October and 17 November, the weekly coal freight rate index rose from 166 to 176 as compared to the base year level. (1951 = 100) The wheat index rose from 183 to 192 as compared to the base year level. (1951 = 100)

On the second-hand ship market, prices for dry cargo ships which rose as much as 15 percent from the middle of November to the beginning of December, reached the highest levels attained in modern times. Liberty ships which sold for as little as \$500,000 one year ago were selling for over \$1,000,000 at the beginning of December. Second-hand tanker prices are also above the Korean War level.

As of 3 December, 69 cargo ships and 30 tankers had been ordered back into service from the U.S. mothball fleet.

Current reports which indicate that the canal may be brought back into use in stages as salvage progresses, however, would mean some more immediate hope for dry cargo movement than for tankers. If the canal becomes available in stages, it may be assumed that ships in the 1,000-5,000 ton classes (most of which are dry cargo vessels) would transit earliest, and heavier vessels at consecutively later periods.

IV. B. The USSR may take certain steps that may partially ameliorate the petroleum shortage in Western Europe. The Soviet Bloc now supplies approximately 90,000 barrels per day of petroleum and petroleum products to non Sino-Soviet Bloc countries. Approximately 50,000 barrels a day are shipped to Western Europe, principally to Sweden, Finland and Iceland. Elsewhere the principal recipients have been Egypt and Yugoslavia.

The Bloc could export substantially larger amounts of crude oil and/or finished products from expanding production and/or inventories. Soviet production of petroleum during the Sixth Five Year Plan will increase at an average annual rate of 12.8 million tons or an average daily increase of about 250,000 barrels. Any substantial increase in exports would, however, involve some sacrifice of economic activity within the Sino-Soviet Bloc because of rapidly expanding indigenous requirements for petroleum.

Elimination of the sea lift of POL from the Black Sea to Communist China (an accomplished fact) alone would provide bottoms for an additional movement to Western Europe of over 50,000 barrels per day. Additional Western European tanker tonnage, other than British or French tonnage, would be quickly furnished to move whatever additional tonnage of POL the USSR might be willing to supply Western Europe.

In view of Sino-Soviet Bloc requirements for POL and certain internal difficulties associated with the movement of large quantities of POL from storage to shipping points, it is considered unlikely that the Soviet Bloc would maintain exports for long at a level in excess of an additional 100,000 barrels per day. Such a quantity, equivalent to about 4 percent of total West European consumption, would permit a reduction of some 12 to 15 percent in the estimated present deficit.

The USSR could, over a limited period and if willing to draw upon inventories or current indigenous use, significantly increase the additional quantities of petroleum available for export to Western Europe.

The USSR has made offers of POL to certain countries in Western Europe, notably Italy, West Germany, (and possibly the UK ½/) and has allowed discussion of POL export possibilities in most trade agreement discussions with this area. Soviet discussion of POL shipments is more apt to remain just discussion with limited additional shipments of POL to Western Europe where considerable political and/or economic advantage may be derived rather than to become a major effort to participate in the action to ameliorate the current POL shortage.

^{1/} New York Times, Dec 4, p.9.